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INTELLIGENCE BRIEF

IMPENDING TAKEOVER OF US RUBBER ESTATES
IN INDONESIA

DIRECTORATE OF INTELLIGENCE
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C-O-N-F-I-D-E-N-T-I-A-L

IMPENDING TAKEOVER OF US RUBBER ESTATES
IN INDONESIA

President Sukarno allegedly has approved a plan for the takeover of US and Belgian rubber estates. According to this plan, Indonesian labor groups will create disturbances on the estates, thereby setting the stage for intervention and takeover by the government of Indonesia on the pretext of maintaining control. The takeover presumably would follow the lines taken against the Dutch estates (in 1957-58), the Belgian estates (in 1961*), and the British estates (in 1964).

Sizable plantations of two major US firms and small holdings of a third US company are affected, representing together an estimated investment of about US \$85 million** and second only to the heavy US private investment in the oil industry of Indonesia. In spite of considerable harassment, these estates have operated at a relatively high rate and have made modestly important contributions to total rubber output and earnings in Indonesia. In 1963 they are estimated to have produced 26,000 metric tons of rubber, which netted about \$13.3 million, or 6 percent of Indonesia's total earnings of foreign exchange from natural rubber.

If the takeover of US rubber interests results in the sudden departure of the present managers and technical personnel of the estates, the Indonesians may encounter problems in operating the US estates. Moreover, should the takeover lead to an economic estrangement between the US and Indonesia, the Indonesian rubber industry may face a serious setback. The US is the leading buyer of Indonesian rubber, having purchased about 38 percent of total rubber exports in recent periods. Such imports of Indonesian rubber, however, account for only about 11 percent of US consumption of rubber. US stockpiles of natural rubber are sufficient to forego purchases from Indonesia for an extended period. Moreover, it is questionable whether the Communist countries would take up the gap in buying created by US withdrawal from the Indonesian rubber market.

* Indonesian "protective custody" over the Belgian estates ended in May 1963.

** Dollar values are given in US dollars throughout this publication.

C-O-N-F-I-D-E-N-T-I-A-L

1. Indications of the Impending Takeover

Action reportedly has been initiated for the impending takeover of US and Belgian rubber estates by the government of Indonesia. President Sukarno allegedly met Indonesian officials on 8 December 1964 and approved plans calling for labor groups to create disorders on the US estates so that the Indonesians would be "forced" to take control. 1/ By so doing Sukarno could obtain control of the estates without formal nationalization and thus obscure the question of future compensation. Similar tactics were employed in gaining control of the Dutch estates in 1957-58, the Belgian estates in 1961, and the British estates in early 1964. In the case of the Dutch and British holdings, the Indonesians followed up their takeovers by ousting the foreign personnel and assuming full managerial control.

As in the previous cases, the impending takeover of US and Belgian rubber estates is linked closely to developments on the international scene. In the present instance the takeover is associated with the recent US-Belgian relief action in the Congo and with the US support for Malaysia and South Vietnam. 2/ On 11 December a US official sought reassurance from Sukarno that the government of Indonesia would block a takeover of US estates but received instead a warning that the US Government should be "careful in its relations with Asian-African countries." 3/ Furthermore, anti-US sentiment, manifested by the recent damaging of two US cultural centers, includes demands by the PNI and PKI* that Sukarno take action against the US estates.

2. Background of the Threat to US Holdings

Although the impending takeover may be sparked by recent political events, the threat to US rubber holdings has been building up for some time, dating back to the ouster of the Dutch in 1957-58 and to Sukarno's pledge to carry out nationalization of the remaining foreign interests in Indonesia. The modestly successful efforts in managing the Dutch rubber estates probably have made the Indonesians confident of similar successes with other foreign investments in rubber. In September 1960 the government of Indonesia decreed that all foreign rubber estates with concessions expiring by 1965 would on

* The PNI is the Indonesian National Party, and the PKI is the Indonesian Communist Party.

expiration revert to the government. 4/ Those concessions expiring after 1965 were subject to negotiation. The US Rubber Company reached an early accord with the Indonesians and, in return for ceding about 46 percent of its area to the government, obtained concession rights that extend to 1972. 5/ The Goodyear Tire and Rubber Company -- the other major US firm with rubber estates in Indonesia -- agreed in 1963 to exchange its large Wingfoot estate (see the map) for two smaller government rubber estates that abutted Goodyear's holdings in Dolok Merangir. 6/ The Indonesians, however, have held off implementation of the agreement and have permitted one of its companies prematurely to take over part of the Wingfoot estate. 7/ This perfidy brought strong reaction from Goodyear, and the ensuing differences may have prompted the rumor that the impending takeover is aimed primarily at the Goodyear estates. 8/

It is clear, however, that all US and other foreign holdings are targets for eventual takeover by the Indonesians. On 17 August 1964, President Sukarno stated that "fundamentally and eventually no imperialists' capital will be allowed to operate on Indonesian soil." The procedure to be followed, according to Sukarno, may vary: "It can be nationalization with compensation; it may also be confiscation without compensation." 9/

3. Significance of the US Holdings

The US rubber estates consist of the two major holdings of US Rubber and Goodyear and a small estate owned by Hawaiian Sumatra Plantations. 10/ All of the US estates are located on the northeast coast of Sumatra (see the map) and comprise about 100,000 acres. In total size the US estates are smaller than the British but larger than the Belgian rubber holdings in Indonesia.* Information concerning the individual US estates is given in the accompanying table.

The US rubber holdings have an estimated value of about \$85 million** and, although considerably below the US investment in oil

* British rubber estates comprise roughly 150,000 acres. The Belgian estates, represented principally by Société Financière des Caoutchoucs (SOCFIN), by Anglo-Sumatran Estates Agency (SIPEF), and by Guthrie and Co., Ltd., are estimated to be somewhat over 50,000 acres. 11/

** In addition to its rubber estates, Goodyear owns a tire plant at Bogor that is valued at \$5 million.

Indonesia: Rubber Estates Owned by US Companies
1964

<u>US Company</u>	<u>Location</u>	<u>Acreage ^{a/}</u>	<u>Estimated Value ^{b/}</u>
US Rubber Company	Kisaran	54,700	\$50 million
Goodyear Tire and Rubber Company	Dolok Merangir	44,500 ^{c/}	\$34 million
Hawaiian Sumatra Plantations	Kwala Goenoeng	3,000	\$ 1.5 million

a. Rounded to the nearest hundred acres.

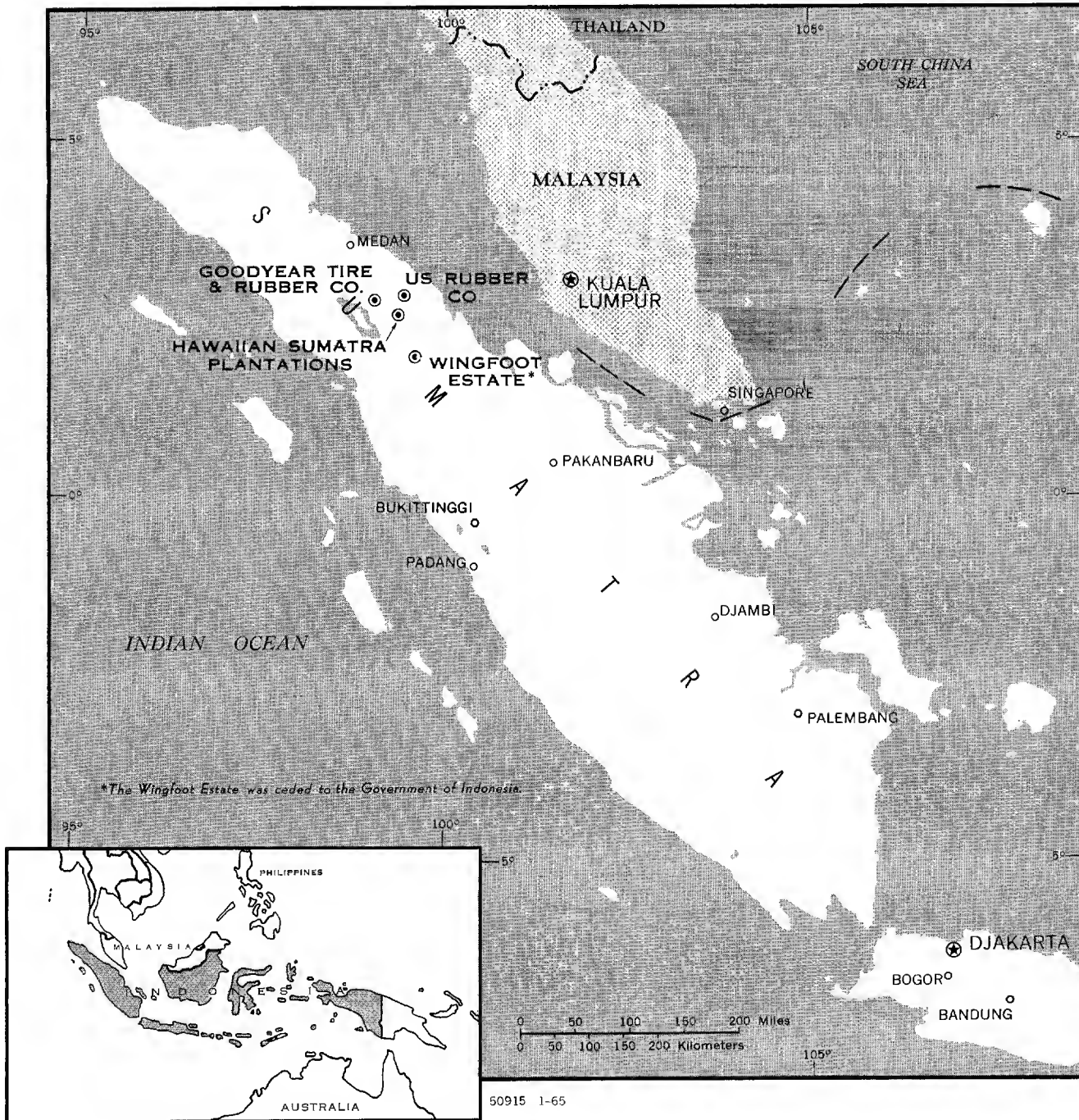
b. These values are estimated to approximate investment and are well in excess of the book and current market values of the various estates.

c. Including two estates that the government of Indonesia has agreed to cede to Goodyear in exchange for Goodyear's Wingfoot estate of 40,000 acres.

(\$380 million), represent the second most important financial stake of US private capital in Indonesia. ^{12/} Most of these investments are in fixed assets such as buildings, processing equipment, and rubber trees and therefore cannot be transferred out of the country. Moreover, given the current political and economic climate in Indonesia, it is doubtful that foreign buyers would be found for the US estates. Accordingly, the current market value of the US estates is well below \$85 million.

The US estates, together with other rubber estates, form a relatively small but highly efficient sector of the Indonesian natural rubber industry. Estate rubber, in contrast to that supplied by Indonesia's smallholders, is of high quality and is marketed directly to various foreign countries. In 1963 the US estates are estimated to have produced 26,000 metric tons of natural rubber, or about 4 percent of Indonesia's total output. The sale of US estate rubber brought an estimated \$13.3 million, or about 6 percent of Indonesia's total foreign exchange earnings from natural rubber in 1963. The government of Indonesia, however, derived only about \$6 million in revenue from the US rubber estates in 1963. The contribution of US estates

US Rubber Estates in Indonesia



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to Indonesia's national income also is modest but is of some significance to Sumatra. In addition to employing an estimated total of 16,000 workers, the two large US estates indirectly support approximately 40,000 people. 13/

4. Possible Effects of the Takeover

Indonesian takeover of the US rubber estates may have damaging, although not necessarily disastrous, consequences for operations. Assuming that the present administrators and technical personnel are not suddenly dismissed or forced to leave, it seems quite possible that output and earnings on the estates will continue at a relatively high rate. By forestalling the departure of the trained personnel, the Indonesians would gain time to acquaint their personnel with operations of the estates and to train adequate replacements.

If, however, Indonesia immediately ousts the present staff and replaces them with favored but ill-trained personnel, such as reportedly is happening on British estates, it appears quite likely that operations on the US estates will take an immediate turn for the worse.

Moreover, should the Indonesian actions lead to an economic estrangement with the US, it seems possible that the over-all rubber industry of Indonesia will suffer. At present, the US is the leading customer for Indonesian rubber, buying about 38 percent of its total rubber exports. Since such imports account for only about 11 percent of US consumption of rubber and there are abundant stocks of natural rubber in the US, the US could forego buying rubber from Indonesia for an extended time. Indonesia, on the other hand, might have problems marketing the additional rubber, particularly because there is some question whether the Communist countries would be willing to increase their purchases sufficiently to take up the gap created by US withdrawal from the Indonesian rubber market. Additional purchases by the USSR, moreover, would not necessarily bring badly needed foreign exchange to Indonesia, because they might be applied against the large outstanding debt that Indonesia owes the USSR.

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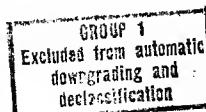
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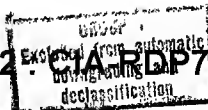
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